ROUTING AND TRANSMITTAL SLIP

16 Mar 87

TO: (Name, office symbol, room number, building, Agency/Post)	Initials	Date
1. Director of Logistics		
2.		
3.		
4.		
5.		

	Action		File		Note and Return
	Approval		For Clearance		Per Conversation
	As Requested		For Correction		Prepare Reply
	Circulate	XX	For Your Information		See Me
	Comment		Investigate		Signature
	Coordination		Justify		

REMARKS

FYI.

DDA REGISTRY
FILE: 00-7

DO NOT use this form as a RECORD of approvals, concurrences, disposals, clearances, and similar actions

FROM: (Name, org. symbol, Agency/Post)	Room No.—Bldg.
[redacted] EXA/DDA [redacted]	Phone No.

STAT

5041-102 OPTIONAL FORM 41 (Rev. 7-76)
Prescribed by GSA
FPMR (41 CFR) 101-11.206
* U.S.G.P.O.: 1983-421-529/320

AT

ROUTING SLIP

TO:		ACTION	INFO	DATE	INITIAL
1	DCI				
2	DDCI				
3	EXDIR				
4	D/ICS				
5	DDI				
6	DDA		X		
7	DDO				
8	DDS&T				
9	Chm/NIC				
10	GC				
11	IG				
12	Compt				
13	D/OCA				
14	D/PAO				
15	D/PERS				
16	D/Ex Staff				
17					
18					
19					
20					
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SUSPENSE ______ Date

Remarks

Executive Secretary
10 Mar '87
Date

3637 (10-81)

DDA SUBJECT FILE COPY

ER-0924X-87

Executive Registry
87-0924x

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

March 2, 1987

DDA/REG
LOGGED

M-87-22

MEMORANDUM FOR THE HEADS OF DEPARTMENTS AND AGENCIES

FROM: James C. Miller III
Director

SUBJECT: Update of Circular A-104 to Conform to the Tax Reform Act of 1986

OMB Circular A-104 prescribes the method of economic analysis that should be used in evaluating leases of capital assets. Appendix A (page 6) of the revised circular, released in June 1986, provides that the tax rate used in lease-versus-buy analysis should be the maximum rate of tax on corporate profits -- at the time equal to 46 percent. Since then, the Tax Reform Act of 1986 has set the maximum corporate tax rate for 1987 equal to 40 percent, and for all subsequent years equal to 34 percent.

A revised page 6 of Appendix A to OMB Circular A-104, incorporating these tax rate changes, is attached.

Attachment

f. Determining the Rate of Tax

The tax rate used in lease-versus-buy analyses should be the maximum rate of tax on corporate profits -- 40 percent in 1987 and 34 percent in all subsequent years. This represents an estimate of the marginal rate of tax on the income generated by the lease. In fact, the income generated by the lease ultimately flows to a wide variety of entities, including corporations, some of which may have losses that offset their income from the lease; tax-exempt institutions; and individuals. Some of these entities may face marginal tax rates that differ from the maximum rate on corporate profits. It is generally impossible, however, to trace the income generated by the lease to each ultimate recipient, and to determine the exact marginal tax rate faced by each one. Lease-versus-buy analyses should therefore assume that all of the income generated by the lease is taxed at the maximum rate for corporate profits. (Corporate tax returns should not be used as a source of tax rates, because they reflect average rather than marginal rates.)

3. Determining the Discount Rate

Current interest rates on Treasury securities may be obtained by consulting Statistical Release H-15, a weekly publication of the Federal Reserve Board, which quotes current interest rates for new issues of 1, 2, 3, 5, 7, 10, 20, and 30 year Treasury securities (referred to in H-15 as "Treasury constant maturities"). The correct discount rate is determined by selecting the category of Treasury security whose maturity is most nearly equal to the term of the lease; finding the current interest rate on new issues in the most recent Statistical Release H-15; and adding one eighth of a percentage point (which represents the Treasury charge for agency borrowings financed through the Federal Financing Bank).